

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **First State Bank, Churdan, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **September 30, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S RATING: This institution is rated **Needs to Improve**.

Loan demand in the bank's assessment area is impacted by the fact that 24% of area residents are age 65 or older and the majority of the residents are not seeking credit. However at 31.57%, the bank's loan-to-deposit ratio is significantly below that of both its peer group of 60.62%, and the average ratio for local competitors of 70.02%. The higher loan-to-deposit ratio of the bank's competitors, who are located in neighboring communities, suggests that there is enough loan demand to warrant a higher level of lending activity than the bank has sustained historically. The bank's lending activity is well below a reasonable standard indicating that the bank needs to improve its CRA record.

Review of the loans the bank has generated showed that the majority are within the bank's assessment area, which includes both middle and moderate-income areas. Review of loan originations within the assessment area shows a reasonable distribution between middle and moderate-income geographies. Further review shows that the bank has made a significant percentage of loans to applicants with low and moderate-income levels. The examination revealed no patterns or practices intended to discriminate or discourage applications from any protected class. There were no CRA-related complaints received by the bank since the previous examination.

The following table indicates the performance level of **First State Bank, Churdan, Iowa** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST STATE BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio			X
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received since the previous examination.		

DESCRIPTION OF INSTITUTION

First State Bank, Churdan, Iowa, has total assets of \$17 million as of June 30, 1996. The Bank serves the assessment area through a single office located in downtown Churdan. First State Bank is the only financial institution in Churdan. Competition is provided by banks in neighboring communities. Competitors include: Home State Bank, Jefferson Iowa; Community State Bank, Paton Iowa; Peoples Trust and Savings Bank, Grand Junction Iowa with branches in Jefferson and Scranton Iowa; First Bank and Trust Company, Glidden Iowa with a branch in Lohrville; and Security Savings Bank, Farnhamville Iowa. Competition for consumer and real estate loans is also provided by several larger institutions in Des Moines, including Brenton Bank, which has a branch in Jefferson.

The bank provides traditional deposit and loan services. The bank offers agricultural, residential mortgage, commercial, and consumer loan products. Agricultural production loans are the largest portion of the bank's loan portfolio. As of June 30, 1996, agricultural loans represented approximately 63% of the bank's total outstanding loans. By comparison, consumer loans were approximately 21% of the loan portfolio, real estate loans were 15%, and commercial loans were 1%.

There are no factors relative to the bank's financial condition, size, or local economic conditions which prevent the bank from meeting community credit needs.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank's single office is located in Churdan, in central Iowa. Churdan, with a population of 423 as of the 1990 U.S. Census Bureau data, is in the northwest quarter of Greene County, approximately 75 miles northwest of Des Moines. The bank has defined its assessment area as the western half of Greene County. This is a rural agricultural area which consists of two of the four block numbering areas (BNA's) that comprise Greene County. The two BNA's in the assessment area are 9803 and 9804.

The 1990 U.S. Census Bureau data showed that the median family income for the assessment area is \$27,624. The median family income for BNA 9803 is \$28,657, while the median income for BNA 9804 is \$23,333. By comparison, the median family income for the rural nonmetropolitan portions of the State of Iowa is \$29,303. Comparisons between the median income for the assessment area and the rural nonmetropolitan median income, results in BNA 9803 being classified as middle-income and BNA 9804 being classified as moderate-income. The total population of the assessment area is 5,040, of which 71.4% reside in BNA 9803 and 28.6% in BNA 9804. The racial composition of the assessment area is 99.8% White, and 0.2% Asian. The census data also revealed that 23.7% of the assessment area's population is age 65 or older.

The median housing value in the assessment area is \$28,030. The median age of the area's housing stock is 48 years, with 54.9% of all area housing built prior to 1950. By comparison the median housing value for the rural portions of the state of Iowa is \$38,521 while median age of the housing stock is 37 years with 48.9% of all housing built prior to 1950. Median monthly rent for the assessment area is \$263, compared to median rent of \$292 for rural Iowa.

As noted previously, this is a rural area with the local economy based on agriculture. Area farming operations focus on corn, soybean, hog and cattle production. Residents not employed in agriculture commute to Jefferson, Boone, and Carroll for employment with county government, light manufacturing organizations and small businesses.

The State of Iowa Department of Employment Services indicated that the state unemployment rate for nonagricultural employment was 2.8% in August 1996, compared to 3.2% in August 1995, and 3.3% in August 1994. By Comparison, the unemployment rates for Greene County were 2.1% in 1996, 3.6% in 1995, and 3.6% in 1994.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank was examined for compliance with fair lending laws and regulations. No evidence of prohibited discriminatory credit practices was detected. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

Loan-To-Deposit Ratio Analysis

Review of the bank's June 30, 1996 Consolidated Report of Condition revealed a net loan-to-deposit ratio of 31.82%. Review of the Consolidated Reports of Condition from September 30, 1995 through June 30, 1996 revealed that the bank had a four quarter average net loan-to-deposit ratio of 31.57%. During this period net loans increased \$228,000, or 5.8%, from \$3.9 million to \$4.1 million, while deposits increased \$1.2 million, or 10.7%, from \$11.8 million to \$13.1 million.

Review of the most recently available Uniform Bank Performance Report (UBPR), dated June 30, 1996, revealed the bank's net loan-to-deposit ratio was 31.82%, compared to a peer group ratio of 61.45%. This level of lending ranks the bank in the sixth percentile of its peer group. Analysis of the UBPR data from September 30, 1995 through June 30, 1996 revealed that the bank had a four-quarter average net loan-to-deposit ratio of 31.57% compared to peer group average of 60.62%. The level of lending during this four quarter period places the bank's average percentile ranking at 6% of peer group.

Bank and peer group loan-to-deposit ratio history is illustrated in the following chart.

LOAN TO DEPOSIT RATIO HISTORY			

LOAN TO DEPOSIT RATIO HISTORY			
RATIO DATE	BANK RATIO	PEER RATIO	PERCENTILE
06/30/96	31.82%	61.45%	6
03/31/96	29.19%	58.30%	6
12/31/95	31.96%	59.81%	6
09/30/95	33.31%	62.93%	6
4 QUARTER AVE.	31.57%	60.62	6

By comparison, the December, 1995 loan-to-deposit ratios for competing financial institutions are illustrated in the following chart:

Bank Name/Location	Asset Size (\$000's)	LTD Ratio
Home State Bank Jefferson, IA	81,221	76.16%
Community State Bank Paton, IA	23,879	65.64%
Peoples Trust & Savings Bank Grand Junction, IA	50,030	82.32%
First Bank & Trust Co. Glidden, IA	44,790	67.91%
Security Savings Bank Farnhamville, IA	25,914	58.06%

The loan-to-deposit ratios of these competitors, as of December 31, 1995, showed a five bank average loan-to-deposit ratio of 70.02%. By comparison the bank's loan-to-deposit ratio as of December 31, 1995 was 31.96%.

Although the bank has experienced some growth in loans, the bank's loan-to-deposit ratio is significantly below that of both its peer group and local competitors. As a result, the bank's loan-to-deposit ratio does not meet the standards for satisfactory performance.

Lending in Assessment Area

A sample of real estate, agricultural, commercial, and consumer loans for the nine month period from January 1, 1996 through September 30, 1996 was reviewed to determine the bank's level of lending within the assessment area. The results of this review are displayed in the following chart.

LENDING IN ASSESSMENT AREA						
LOAN TYPE	UNIVERSE		ASSESSMENT AREA		% IN AREA	
	#	\$	#	\$	#	\$
Real Estate	4	87,807	3	55,807	75.0	63.6
Agricultural	310	3,896,181	245	3,495,640	79.0	89.7
Commercial	17	68,506	13	44,895	76.5	65.5
Consumer	268	1,016,187	182	727,007	67.9	71.5
TOTAL	599	5,068,681	443	4,323,349	74.0	85.3

As the preceding chart illustrates, 74.0% of the total number of loans and 85.3% of the total dollar amount of loans were made within the assessment area. The regulation requires that the majority of loans be made within the assessment area for a satisfactory rating. The bank's lending within its assessment area meets the standards for satisfactory performance.

Lending Analysis Based Upon Borrower Income and Size of Business

The bank's small farm, small business, consumer, and real estate loans, for the nine month period from January 1, 1996 through September 30, 1996 were reviewed to determine the bank's performance under this criteria. The bank does not consistently collect income information for loan applicants. Analyses were based on original loan amounts which were used as proxies for income to determine the bank's performance.

Small Farm and Small Business Loans

Annual revenue information was not readily available for loans to small farms and small businesses. The lack of this information required that original loan amount be used as a proxy for annual revenue. In this regard, original loan amounts similar to those used for reporting small business and small farm loan activity in the June 30 Consolidated Reports of Condition were used to stratify the bank's loan activity. Instructions for preparation of the Consolidated Report of Condition define small farm loans as those with original amounts of \$500,000 or less, and small business loans as those of \$1,000,000 or less. The following charts illustrate the bank's level of small farm and small business lending.

SMALL FARM/SMALL BUSINESS OPERATING & REAL ESTATE LOANS LOAN AMOUNT ANALYSIS					
LOAN AMOUNTS IN (000'S)	FARM OPERATING # % total	FARM REAL ESTATE # % total	BUSINESS OPERATING # % total	BUSINESS REAL ESTATE # % total	
\$50 or less	228 93.4	0 na	13 100.0	0	na
\$50+ thru \$100	13 5.3	0 na	0 na	0	na
\$100+thru\$250	3 1.2	1 100.0	0 na	0	na
\$250+thru\$500	0 na	0 na	0 na	0	na
\$500+ or more	0 na	0 na	0 na	0	na
TOTAL	244 100.0	1 100.0	13 100.0	0	na

The preceding chart shows that all of the bank's agricultural and commercial loans during the nine-month sample period are classified as small farm and small business loans.

Consumer Loans

Consumer personal installment, single payment, and automobile loans originated during the sample period were reviewed. The bank does not always collect income information for consumer loans. The lack of income information required that loan amount be used as a proxy for annual income. In this regard, a modified variation of the small farm and small business loan stratification was used as a proxy for annual income. A loan amount of \$1,000 was chosen as the base amount to stratify the bank's personal lending activity. This amount approximates one month's income for a low-income consumer. A loan amount of \$5,000 was used as the base amount for stratifying automobile loan activity. Automobile loan amounts of less than \$5,000 are generally for older used vehicles, typically financed by low-income consumers. Bank management acknowledged that use of these amounts as proxies for income establishes personal and automobile loan amounts typically sought by low-income consumers. The following chart illustrates the distribution of consumer loans by loan amount.

CONSUMER LOAN AMOUNT ANALYSIS					
PERSONAL LOAN AMOUNTS	PERSONAL INSTALMENT LOANS # %total	PERSONAL SINGLE PMT. LOANS # %total	AUTOMOBILE LOAN AMOUNTS	AUTOMOBILE LOANS # %total	
\$500 or less	2 6.2	35 33.6	\$2500 or less	6	13.0
\$501 - \$1000	4 12.5	21 20.2	\$2501-\$5000	10	21.8
\$1001-\$2500	11 34.4	27 26.0	\$5001-\$10000	23	50.0
\$2501-\$5000	5 15.6	10 9.6	\$10001-\$20000	6	13.0
\$5001 or more	10 31.3	11 10.6	\$20001 or more	1	2.2
TOTAL	32 100.0	104 100.0	TOTAL	46	100.0

The preceding chart shows that the bank is making consumer loans in amounts typical of those requested by low and moderate-income borrowers.

Real Estate Loans

The bank does not consistently collect applicant income information on mortgage loans. Unavailability of this information required the use of original loan amount as a proxy for annual income. The US Census Bureau stratification model for housing values was used to stratify the bank's mortgage loan activity. The amounts used also approximate amounts equal to 2.5 times the annual median family incomes for very low income (30% of median), low-income (50% of median), moderate-income (80% of median), middle-income (120% of median), and upper-income 120%+ of median) families. The three residential real estate loans made in the assessment area during the review period were all in amounts of less than \$40,000. This shows that the bank is making small mortgage loans in amounts normally associated with low and moderate-income consumers.

Based on available information, the bank's level of lending to applicants of different income levels for small farm, small business, consumer, and mortgage loans, exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

The bank's assessment area consists of two block numbering areas (BNA). Based on census data, BNA 9803 is a middle-income area, and BNA 9804 is considered a moderate-income area. The following chart represents the geographic distribution of loans throughout the assessment area for the nine month period from January 1, 1996 through September 30, 1996.

DISTRIBUTION OF LOANS THROUGHOUT ASSESSMENT AREA						
LOAN TYPE	ASSMNT AREA		BNA 9803		BNA 9804	
	#	\$	#	\$	#	\$
Real Estate	3	55,807	3	55,807	0	na
Agricultural	245	3,495,640	219	3,005,641	26	489,999
Commercial	13	44,895	13	44,895	0	na
Consumer	182	727,007	178	715,497	4	11,510
TOTAL	443	4,323,349	413	3,821,840	30	501,509

The preceding chart illustrates that the bank is making loans in the two BNA's within its assessment area. Ninety-three percent of the total number, and 88% of the total dollar amount of loans during the sample period were in BNA 9803, a middle-income area. By comparison, seven percent of the total number, and 12% of the total dollar amount of loans during the sample period were in BNA 9804, a moderate-income area. This concentration of lending reflects the fact that the bank's single office in Churdan, is located in BNA 9803. It also reflects the fact that 71% of

the assessment area's population resides in BNA 9803. The bank's geographic distribution throughout the assessment area is considered reasonable and meets the standards for satisfactory performance.

Response to Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.